

HUMAN RESOURCE MANAGEMENT AND FIRM PERFORMANCE
IN OAKLAND COUNTY, MICHIGAN

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EXECUTIVE SUMMARY

A profile of Oakland County's workforce is presented showing that occupation distribution within all firms and within industry sectors has remained generally stable for the time period 1987 to 1989. One clear trend, however, has been the employment gains among technical and skilled workers in the business services sector. Relationships between workforce composition, human resource management practices, corporate culture, and firm performance are also examined. The results indicate that employees with scientific and technical training are associated with higher performance in product/service design and development, at least for business services and retail firms. Several specific aspects of human resource management and corporate culture are found to be strongly related to firm performance, especially for retail and wholesale firms.

INTRODUCTION

This research examines several factors contributing to firm performance in Oakland County, namely (1) workforce composition, (2) human resource management (HRM) practices, and (3) aspects of corporate culture. To do this, data were drawn from the Oakland County Business Survey, a five-year longitudinal study of firms in Oakland County, Michigan (Denison and Hart, 1987). As part of this survey, chief executive officers (CEOs) in 916 Oakland County firms were asked to respond to a range of issues, including firm performance, HRM practices, and nature of the firm's culture. This report presents the results for these issues.

In the survey, CEOs were asked to rate, on a 1 to 5 scale, the importance of several factors to the economic success of their firm. These CEOs were also asked to assess, on a 1 to 7 scale, their firm's performance in seven different areas: technical product/service design and development, sales growth, market share, cash flow, profitability, product/service quality, and employee satisfaction. They were requested to make a similar assessment of their firm's overall performance, and to rate the degree to which several ~~human regarding~~ human resource management practices and aspects of corporate culture were present in their firms. Throughout the sections on

training and development and firm performance, relationships with correlations stronger than .25 are reported.

PROFILE OF THE COUNTY WORKFORCE:

Tables 1 shows the profile of Oakland County's workforce across all industry sectors for the period 1987 to 1989. Laborers constitute the largest percentage of employees, followed by those in the sales, clerical, and service category. Skilled craftspersons and machine operators make up the third largest component of the workforce. Technical, executive, and professional employees comprising the fourth, fifth, and sixth largest groups, respectively. This profile has remained remarkably stable over that past three years, with the laborer, skilled, and technical categories showing moderate increases from 1987 to 1989. Sales, clerical, and service employees have declined as a percentage of the workforce during this time period, and the other employee categories have remained roughly stable in size. In 1988, 60 percent of the firms stated that their employees have scientific or technical training, with an average of 40 percent of their workforces having such training¹. This compares with 33 percent of the average workforce for 1987². Sixteen percent of the firms in Oakland County are unionized in 1988, and on average, more than half of their workforces (53%) are represented by unions. Part-time and contract employees are most heavily represented among the sales and laborer categories, which is not surprising, although a fairly large proportion of professional employees is similarly employed (see Table 8).

WORKFORCE PROFILES BY INDUSTRY SECTOR

Tables 2 through 7 show workforce compositions disaggregated by industry sector for the period 1987 to 1989. The differences in composition by industry are unsurprising, with sales, clerical, and service employees

1 1988 Oakland County Business Survey Year Three Project Report.

predominating in the retail, wholesale, FIRE³, and business services sectors. Laborers dominate the manufacturing and other industry sectors. Professional and executive employees are most prevalent in the FIRE sector. The proportion of technical employees (20.5%) is highest in the business services sector, providing evidence for a sophisticated service sector in the county.

Each industry sector also shows a high degree of stability in workforce composition. The clearest trends appear for the business services sector (Table 6), which shows strong gains among technical and skilled crafts employees. Skilled crafts employees also appear to be gaining in the retail and wholesale sectors, but have decreased between 1987 and 1988 in the manufacturing sector and have made only a partial recovery in 1989 in this sector (see Table 4). Firms within each industry sector do have distinct differences in their plans for hiring additional part-time and contract employees, with retail and business service firms having the most favorable expectations (see Table 9).

TRAINING AND DEVELOPMENT

Table 10 shows average firm spending on training and development (as a percent of sales) for each industry sector as well for all firms Oakland County from 1986 to 1988. During this time period, each industry shows an increase in spending, with the manufacturing sector having the highest absolute percentage of revenues devoted to training and development, and the business services sector showing increase in spending. Correlation analysis of the data revealed some of the underlying reasons for spending on training and development. Wholesale and business services firms that emphasize the importance of quality trade-schools as an important factor affecting their own

2 1987 Oakland County Business Survey Year Three Project Report.
3 Finance, insurance, and real estate firms.

economic success tend to spend more on training and development. No other significant relationships were uncovered, but these findings suggest that industries within Oakland County place varying degrees of importance upon public educational institutions as the means for enhancing the quality of their workforces.

FIRM PERFORMANCE: RELATIONSHIPS WITH WORKFORCE COMPOSITION,
HUMAN RESOURCE MANAGEMENT PRACTICES AND CORPORATE CULTURE

For firms in the business services, retail and "other" categories, the percentage of employees with scientific or technical training is related to technical product/service design and development. This percentage was also related to quality performance of "other" firms and employee satisfaction of retail firms. Harmonious relations between unions and management is related to employee satisfaction or firm performance only for wholesale and manufacturing firms.

Several human resource management practices and aspects of corporate culture are related to higher firm performance, but their importance is different across industries. Rewarding innovation is important to performance for wholesale and manufacturing firms, whereas employee commitment and involvement are important to performance for all firms except those in the "other" category. Individuals willing to take risks is important to firm performance in the wholesale, manufacturing and "other" sectors. Valuing individual achievement is important to firm performance in the retail, wholesale, and business services sectors, whereas committing to employees for the long-term and expecting loyalty in return contributes to firm performance in the retail, wholesale, and manufacturing sectors. Last, having a performance appraisal process that is understandable or objective is important

to all firms except for those in the manufacturing and "other" sectors. These relationships are summarized in Table 11.

CONCLUSION

Although a high degree of similarity across industries exists in the stability of workforce composition and trends regarding spending on training and development, the results also show that certain industries are undergoing changes in their employment make-up and are more aggressive in upgrading their human capital. Human resource management practices and aspects of corporate culture also have different effects on firm performance across industry sectors. These results highlight those firms which are most desirous of upgrading their workforces as well as those which could benefit from assistance in developing more sophisticated human resource practices.

REFERENCE

Denison, D.R. and Hart, S.L. 1987 Revival in the Rust Belt: Tracking the Evolution of an Urban Industrial Region. Ann Arbor, MI: University of Michigan, Institute for Social Research. 214 pp.

TABLE 1:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR ALL FIRMS

<u>EMPLOYMENT CATEGORY</u>	<u>1987 PERCENT</u>	<u>1988 PERCENT</u>	<u>1989 PERCENT*</u>
Executive, Administrative	8.7%	8.2%	8.3%
Professional	8.0	8.3	8.1
Technical	8.9	9.2	9.7
Sales, Clerical, Service	27.7	24.4	24.7
Skilled Crafts	17.2	16.8	18.1
Laborer	29.5	33.1	31.1
Total	100.0%	100.0%	100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 2:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR RETAIL FIRMS

<u>EMPLOYMENT CATEGORY</u>	<u>1987 PERCENT</u>	<u>1988 PERCENT</u>	<u>1989 PERCENT*</u>
Executive, Administrative	6.8%	6.8%	6.7%
Professional	7.1	7.7	7.4
Technical	4.7	5.0	4.9
Sales, Clerical, Service	67.2	66.0	65.4
Skilled Crafts	5.5	5.9	6.3
Laborer	8.7	8.6	9.3

Total 100.0% 100.0% 100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 3:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR WHOLESALE FIRMS

<u>EMPLOYMENT CATEGORY</u>	<u>1987 PERCENT</u>	<u>1988 PERCENT</u>	<u>1989 PERCENT*</u>
Executive, Administrative	12.8%	12.9%	12.0%
Professional	4.0	4.0	3.7
Technical	11.5	11.2	10.6
Sales, Clerical, Service	40.0	40.5	40.0
Skilled Crafts	7.5	7.7	8.0
Laborer	24.2	23.7	25.7

Total 100.0% 100.0% 100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 4:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR MANUFACTURING FIRMS

<u>EMPLOYMENT CATEGORY</u>	<u>1987 PERCENT</u>	<u>1988 PERCENT</u>	<u>1989 PERCENT*</u>
Executive, Administrative	5.4%	4.6%	4.6%
Professional	2.4	2.3	2.3
Technical	4.2	4.7	4.3
Sales, Clerical, Service	6.7	6.6	6.3
Skilled Crafts	29.5	26.1	27.5
Laborer	51.8	55.7	55.0

Total 100.0% 100.0% 100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 5:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR FINANCE, INSURANCE, AND
REAL ESTATE FIRMS (FIRE)

EMPLOYMENT CATEGORY	1987 PERCENT	1988 PERCENT	1989 PERCENT*
Executive, Administrative	35.0%	32.8%	33.2%
Professional	18.1	24.0	23.0
Technical	1.3	1.3	1.4
Sales, Clerical, Service	40.0	38.5	37.5
Skilled Crafts	.4	.4	.4
Laborer	5.2	3.0	4.5
Total	100.0%	100.0%	100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 6:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR BUSINESS SERVICES FIRMS

EMPLOYMENT CATEGORY	1987 PERCENT	1988 PERCENT	1989 PERCENT*
Executive, Administrative	7.0%	6.8%	7.1%
Professional	13.4	13.1	13.1
Technical	17.9	18.3	20.5
Sales, Clerical, Service	31.7	27.0	28.4
Skilled Crafts	8.2	9.6	12.4
Laborer	21.8	25.2	18.5
Total	100.0%	100.0%	100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 7:
COUNTY WORKFORCE PROFILE: 1987-1989 FOR OTHER FIRMS

EMPLOYMENT CATEGORY	1987 PERCENT	1988 PERCENT	1989 PERCENT*
Executive, Administrative	7.5%	7.0%	7.0%
Professional	2.7	2.8	3.0
Technical	9.0	9.9	10.0
Sales, Clerical, Service	14.8	14.4	15.0
Skilled Crafts	32.0	31.9	30.5
Laborer	34.0	34.0	33.6
Total	100.0%	100.0%	100.0%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 8:
TEMPORARY EMPLOYEES BY EMPLOYEE CATEGORY

<u>EMPLOYMENT CATEGORY</u>	<u>PERCENTAGE EMPLOYED ON A PART-TIME OR CONTRACT BASIS</u>
Executive, Administrative	9.0
Professional	17.7
Technical	11.5
Sales, Clerical, Service	21.9
Skilled Crafts	12.2
Laborer	20.5

TABLE 9:
FIRMS THAT EXPECT TO HIRE ADDITIONAL PART-TIME
AND CONTRACT EMPLOYEES BY INDUSTRY SECTOR

<u>INDUSTRY SECTOR</u>	<u>PERCENTAGE OF FIRMS THAT WILL HIRE ADDITIONAL PART-TIME AND CONTRACT EMPLOYEES IN 1988</u>
Retail	44
Wholesale	22
Manufacturing	21
FIRE	28
Business Services	35
Other	37

TABLE 10:
FIRM SPENDING ON TRAINING AND DEVELOPMENT BY
INDUSTRY SECTOR AS A PERCENT OF SALES 1986-1988

<u>INDUSTRY SECTOR</u>	<u>1986 PERCENT</u>	<u>1987 PERCENT</u>	<u>1988 PERCENT*</u>
Retail	1.8%	2.2%	2.8%
Wholesale	1.9	2.4	2.7
Manufacturing	3.6	4.4	4.5
FIRE	3.7	3.9	4.3
Business Services	2.6	3.4	4.1
Other	1.3	1.5	1.9
All Industries	2.8%	3.4%	3.9%

*Estimated figures provided by CEOs in the 1988 OCBS Survey.

TABLE 11:
RELATIONSHIPS BETWEEN HUMAN RESOURCE MANAGEMENT
PRACTICES, CORPORATE CULTURE AND FIRM PERFORMANCE

<u>FACTORS</u>	<u>RETAIL</u>	<u>WHOLESALE</u>	<u>MFG</u>	<u>FIRE</u>	<u>BUS.SVC</u>	<u>OTHER</u>
Understandable appraisal process	+++	+++				
Objective goals specified	+++			+++	+++	+++
Committed to employees for the long term; expect loyalty in return	+++	+++	+++			
Individual achievement highly valued	+++	+++			+++	
Highly involved and committed employees	+++	+++	+++	+++	+++	
Risk-taking rewarded		+++	+++			+++
Innovation rewarded		+++	+++			

+++Designates significant, positive relationship with firm performance.